US HealthVest

BEHAVIORAL HEALTHCARE REDEFINED

# Consolidated Audited Financial Statements and Supplemental Information for US HealthVest, LLC

For the Years ended December 31, 2016 and 2015

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TOBIN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS, PC

## INDEPENDENT AUDITORS' REPORT

To the members of:
US HealthVest, LLC
New York, N.Y.

We have audited the accompanying consolidated financial statements of US HealthVest, LLC and subsidiaries, which comprise the balance sheet as of December 31, 2016 and 2015, and the related statements of operations, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of US HealthVest, LLC. as of December 31, 2016 and 2015, and the results of their operations, changes in members' equity, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Tobin & Company
Certified Public Accountants, PC

Purchase, New York
February 25, 2017


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## Consolidated Balance Sheets

| *As of December 31,* | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and equivalents | $ 64,182,652 | $ 10,824,507 |
| Accounts receivable, net | 3,750,201 | 3,834,931 |
| Inventory | 146,983 | 136,448 |
| Prepaid expenses | 799,246 | 550,020 |
| Total Current Assets | 68,879,082 | 15,345,906 |
| | | |
| Land, Property and Equipment, net | 54,069,828 | 15,147,568 |
| | | |
| **Other Assets** | | |
| Investment in future facilities | 899,900 | 444,642 |
| Other receivable and other assets | 23,936 | 44,234 |
| Goodwill | 15,016,697 | 15,016,697 |
| Total Other Assets | 15,940,533 | 15,505,573 |
| | | |
| **Total Assets** | **$ 138,889,443** | **$ 45,999,047** |
| | | |
| **LIABILITIES AND MEMBERS' EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable | $ 7,155,376 | $ 1,888,447 |
| Accrued expenses | 2,777,472 | 2,088,698 |
| Retainage on Construction | 1,762,362 | - |
| Deferred Gain on Sale Leaseback, current portion | 592,454 | - |
| Capital Lease Payable, current portion | 631,098 | - |
| Note Payable, current portion | - | 108,587 |
| Financed insurance | 227,542 | 165,342 |
| Total Current Liabilities | 13,146,304 | 4,251,074 |
| | | |
| Capital Lease Payable | 19,043,016 | - |
| Deferred Gain on Sale Leaseback, net of current | 7,948,752 | |
| Note Payable, net of current | 6,169,228 | 7,048,086 |
| Financing Costs, net | (333,484) | (140,197) |
| Long term debt net of unamortized financing cost | 32,827,512 | 6,907,889 |
| | | |
| Total Liabilities | 45,973,816 | 11,158,963 |
| | | |
| **MEMBERS' EQUITY** | 92,915,627 | 34,840,084 |
| | | |
| **Total Liabilities and Members' Equity** | **$ 138,889,443** | **$ 45,999,047** |

*See accompanying notes to the financial statements*

## Consolidated Statements of Operations

| *For the Years ended December 31,* | 2016 | 2015 |
|---|---|---|
| **Revenues** | | |
| Net Patient Service Revenues | $ 31,598,936 | $ 15,622,251 |
| Other Revenue | 1,697,612 | 1,375,051 |
| **Net Revenues** | **33,296,548** | **16,997,302** |
| | | |
| **Operating Expenses** | | |
| Salaries and benefits | 18,868,677 | 12,294,947 |
| Professional fees | 4,388,719 | 2,311,921 |
| Supplies | 1,437,340 | 967,231 |
| Licenses, permits and fees | 1,429,996 | 944,276 |
| Contracted services | 1,211,489 | 497,373 |
| Bad debt expense | 813,681 | 205,906 |
| Property and business taxes | 721,085 | 453,448 |
| Travel and entertainment | 710,814 | 614,349 |
| Insurance | 474,228 | 348,377 |
| Utilities | 351,755 | 253,618 |
| Repairs and maintenance | 325,967 | 212,848 |
| Contracted labor | 204,598 | 401,309 |
| Rent | 190,440 | 198,426 |
| Recruiting costs | 136,317 | 101,515 |
| Other operating expenses | 94,565 | 71,059 |
| Computer and internet | 91,254 | 46,734 |
| Security | 67,285 | - |
| Advertising and marketing | 46,146 | 24,869 |
| Dues and subscriptions | 18,518 | 8,608 |
| **Total Operating Expenses** | **31,582,874** | **19,956,814** |
| | | |
| **Income (Loss) from Operations before other Items** | **1,713,674** | **(2,959,512)** |
| Depreciation and amortization expense | (985,435) | (271,695) |
| Interest expense | (1,561,582) | (135,735) |
| Interest income | 40,068 | 9,896 |
| | | |
| **Net Loss** | **$ (793,275)** | **$ (3,357,046)** |

*See accompanying notes to the financial statements*

## Consolidated Statements of Members' Equity

| *For the years ended December 31, 2016 and 2015* | |
|---|---|
| **Beginning Balance, January 1, 2015** | **$ 27,697,130** |
| Contributions from Members | 10,500,000 |
| Net loss for the year ended December 31, 2015 | (3,357,046) |
| **Balance, December 31, 2015** | **34,840,084** |
| Contributions from Members | 58,868,818 |
| Net loss for the year ended December 31, 2016 | (793,275) |
| **Balance, December 31, 2016** | **$ 92,915,627** |

*See accompanying notes to the financial statements*

# US HealthVest, LLC

## Consolidated Statements of Cash Flows

| *For the years ended December 31,* | | 2016 | | 2015 |
|---|---|---|---|---|
| **Cash Flows From Operating Activities** | | | | |
| Net Loss | $ | (793,275) | $ | (3,357,046) |
| | | | | |
| Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities: | | | | |
| Depreciation and amortization | | 985,435 | | 271,695 |
| Interest expense associated with financing costs | | 154,596 | | 8,685 |
| Bad debt expense | | 813,681 | | 205,906 |
| Changes in Operating Assets and Liabilities: | | | | |
| Increase in prepaid expenses | | (249,226) | | (82,663) |
| Increase in other receivable and other assets | | (434,960) | | (296,998) |
| Increase in accounts receivable | | (728,951) | | (3,201,540) |
| Increase in inventory | | (10,535) | | (2,315) |
| Increase in accounts payable and accrued expenses | | 5,955,703 | | 2,496,426 |
| Net Cash Flows Provided by (Used in) Operating Activities | | **5,692,468** | | **(3,957,850)** |
| | | | | |
| **Cash Flows From Investing Activities** | | | | |
| Capital expenditures | | (39,907,595) | | (7,859,676) |
| Increase in deferred gain on sale leaseback | | 8,541,206 | | - |
| Net Cash Flows Used in Investing Activities | | **(31,366,389)** | | **(7,859,676)** |
| | | | | |
| **Cash Flows From Financing Activities** | | | | |
| Contributed Capital | | 58,868,818 | | 10,500,000 |
| Increase (Decrease) in financed insurance | | 62,200 | | (2,130) |
| Advances from notes payable | | 6,169,228 | | 7,156,673 |
| Repayment of notes payable | | (7,156,673) | | - |
| Proceeds from capital lease | | 20,000,000 | | - |
| Repayment of capital lease | | (325,886) | | - |
| Increase in retainage | | 1,762,362 | | - |
| Financing Costs | | (347,983) | | (148,881) |
| Net Cash Flows Provided by Financing Activities | | **79,032,066** | | **17,505,662** |
| | | | | |
| **Net Increase In Cash** | | **53,358,145** | | **5,688,136** |
| Cash at Beginning of Year | | 10,824,507 | | 5,136,371 |
| | | | | |
| **Cash at End of Year** | **$** | **64,182,652** | **$** | **10,824,507** |
| | | | | |
| **Supplemental Disclosures** | | | | |
| Cash paid during the period for: | | | | |
| Interest Expense | $ | 1,406,986 | $ | 127,050 |

*See accompanying notes to the financial statements*

## Note 1 – Summary of Accounting Policies

*Organization and Business*
US HealthVest, LLC (the Company) was formed under the laws of the State of Delaware on March 1, 2013. The purpose of the Company and its affiliates is to acquire and operate behavioral healthcare facilities throughout the United States. As of the balance sheet date the Company currently operated one facility located in Illinois.

*Basis of Accounting*
The financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles.

*Principles of Consolidation*
The consolidated financial statements include the activities of US HealthVest, LLC, and its subsidiaries, collectively referred to as "the Company". All material intercompany accounts and transactions have been eliminated.

The activities of 2014 Health, LLC, 2014 Health Realty, LLC, Vest Monroe, LLC, Vest Monroe Realty, LLC, V Colorado, LLC, RV Behavioral, LLC, RV Behavioral Realty, LLC, Vest Seattle, LLC, and Vest Seattle Realty, LLC collectively referred to as "affiliates" have been consolidated with the activities of US HealthVest, LLC and are presented in the statements of supplemental information.

*Recent Developments*
On November 3, 2014 the Company acquired the assets of Maryville Behavioral Health Hospital. The acquisition included a 125 bed hospital as well as the land on which the hospital is located in Des Plaines, Illinois. This hospital provides services to those suffering from mental health illnesses and chemical dependency. The activities of this operation from the date of acquisition through the end of the fiscal year are included in the consolidated financial statements.

In January 2014, US HealthVest received a Certificate of Need to develop a 75 bed hospital in Washington State. The hospital will be located in Marysville, a suburb of Seattle. In September 2014, the Company received a Certificate of Need for an additional 50 beds in Washington State, which was subsequently reduced to 40 beds (for a total of 115 beds) in February 2015.

In June 2014, US HealthVest received a Certificate of Need to develop a 70 bed hospital in Georgia. In June 2015, the Company acquired property including an existing hospital building and the land on which the hospital is located in Monroe, Georgia. During 2015 demolition and construction started on this property.

As of May 1, 2015 Chicago Behavioral Hospital was approved as a Medicare provider.

In January 2016, the renovation of the 3rd and 4th floors of Chicago Behavioral Hospital was completed, and the full 125 licensed beds became available. In November 2016, Chicago Behavioral Hospital received approval to increase its licensed bed count to 138 total beds.

In June 2016, US HealthVest received a Certificate of Need to develop a 100 bed hospital in Northbrook, Illinois.

In June 2016, US HealthVest received a Certificate of Need to develop a 75 bed hospital in Newnan, Georgia.

In July 2016, US HealthVest received a Certificate of Need to develop a 75 bed hospital in Lacey, Washington.

*Cash and Equivalents*
The Company considers all short term investments with an original maturity of three months or less to be cash equivalents.

*Accounts Receivable, Net Revenue and Cost Recognition*
The Company recognizes revenues in the period in which services are performed. Accounts receivable consist primarily of amounts due from third-party payors. The amounts the Company receives for treatment of patients covered by governmental programs such as Medicare, Medicaid and other third-party payors such as health maintenance organizations, preferred provider organizations and other private insurers are generally less than the Company's established billing rates. Accordingly, the revenues and accounts receivable reported in the Company's consolidated financial statements are recorded at the net amount expected to be received.

*Inventory - Supplies*
Inventories consist of pharmaceutical supplies and are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

*Property and Equipment*
Property and equipment are stated at cost. Maintenance and repairs are expensed in the period incurred; major renewals and betterments are capitalized. When items of property are sold or retired, the related costs are removed from the accounts and any gain or loss is included in income.

Property and Equipment are depreciated using straight-line depreciation methods over their estimated useful lives as follows:

| | |
|---|---|
| Buildings and Improvements | 39 years |
| Furniture and Equipment | 5-7 years |
| Computer equipment and software | 5 years |

*Allowance for Doubtful Accounts*
The primary risk in patient receivables would be uninsured amounts owed by direct pay patients. The Company establishes an allowance for doubtful accounts for all accounts receivable over 180 days old, and continually monitors accounts receivable balances and utilizes cash collection data and historical trends to support this position. The allowance for doubtful accounts as of December 31, 2016 and 2015 was $664,091 and $173,944, respectively. The Company has also established an allowance for denials and administrative adjustments from payors in the amount of $71,759 and $244,838, as of December 31, 2016 and 2015, respectively.

*Concentration of Credit Risk*
Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, cash equivalents and investments held in financial institutions. At times such balances may be in excess of Federal Deposit Insurance Company (FDIC) limits.

The Company's revenues are heavily related to patients participating in Medicaid, and Medicare. Management recognizes that revenues and receivables from government agencies are significant to the Company's operations, but it does not believe that there is significant credit risk associated with these government agencies.

*Use of Estimates*
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

*Advertising Costs*
Advertising costs are expensed as incurred. Advertising expenses amounted to $46,146 and $24,869 for the years ended December 31, 2016 and 2015, respectively.

*Goodwill*
Goodwill represents the amount of purchase price in excess of the fair value assigned to the underlying identifiable net assets in certain acquisitions. In accordance with FASB ASC 350-10, goodwill and indefinite-lived intangible assets are no longer amortized systematically, but subject to impairment annually. Management reviews the carrying value of goodwill on an annual basis in order to determine whether impairment has occurred. Impairments are based on several factors, including the Company's projection of future operating cash flows. As of December 31, 2016 the Company has not recognized impairment of goodwill.

*Compensated Absences*
The Company's employees earn paid time off hours ("PTO"), which can be used towards vacation, sick time and personal days off. Paid time off is earned depending on the length of service and job position. Employees can carryover no more than 80 PTO hours at year end. Accrued compensated absences as of December 31, 2016 and 2015 were $331,846 and $179,416, respectively.

*Income Taxes*
The Company is organized as a Limited Liability Company. In lieu of corporate taxes, the members of a Limited Liability Company are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal or state income taxes has been included in the financial statements. The Company's income tax returns are subject to examination by the appropriate tax jurisdictions for a period of three years from when they are required to be filed.

The Company reviews and assesses its tax positions taken or expected to be taken in tax returns. Based on this assessment, the Company determines whether it is more likely than not that the positions would be sustained under examination by the tax authorities. The Company's assessment has not identified any significant positions that it believes would not be sustained under examination.

*Acquisitions, Business Combinations*

In accordance with ASC 805, the company accounts for business combinations using the acquisition method and accordingly, the identifiable assets acquired, and the liabilities assumed are recorded at their acquisition date fair values. Goodwill represents the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets.

## Note 2 – Investment in Future Facilities

The Company is in the process of establishing new psychiatric facilities. Amounts invested toward the future purchase or lease of these facilities as of December 31, 2016 and 2015 were as follows:

| *As of December 31,* | 2016 | 2015 |
|---|---|---|
| Phoenix | $ - | $ 150,000 |
| Seattle | - | 294,642 |
| Newnan, GA | 249,900 | - |
| Smyrna, GA | 250,000 | - |
| Lacey, WA | 400,000 | - |
| Total | $ 899,900 | $ 444,642 |

## Note 3 - Property and Equipment

The major classifications of property and equipment are as follows:

| *As of December 31,* | 2016 | 2015 |
|---|---|---|
| Land | $ 2,825,000 | $ 2,125,000 |
| Buildings and Improvements | 21,974,169 | 8,965,883 |
| Furniture,Fixtures and Equipment | 1,535,698 | 413,366 |
| Computer Equipment and Software | 599,556 | 428,295 |
| Construction in progress | 28,256,489 | 3,531,033 |
| Total Land, Property, and Equipment | 55,190,912 | 15,463,577 |
| Less Accumulated Depreciation | (1,121,084) | (316,009) |
| Land, Property and Equipment, net | $ 54,069,828 | $ 15,147,568 |

## Note 4 – Retainage on Construction

The Company withholds from contractors, a portion of payments due in connection with construction in progress ranging from 5% to 10%. Upon completion of work, and final inspections, retainage is released to the respective contractors. As of December 31, 2016 total retainage due to contractors was $1,762,362.

### Note 5 – Financed Insurance

During 2015 The Company financed its auto, crime, general, malpractice, and flood insurance premiums through IPFS Corporation. Total premiums on these policies were $275,568. Of this amount, $206,676 was financed and was payable in ten equal monthly installments of $20,667, including finance charges at 4.48%. As of December 31, 2015 the remaining balance on this agreement was $165,342.

During 2016 The Company financed its auto, crime, general, malpractice, and flood insurance premiums through Premium Assignment Corporation. Total premiums on these policies were $381,598. Of this amount, $286,123 was financed and was payable in ten equal monthly installments of $29,291, including finance charges at 5.14%. As of December 31, 2016 the remaining balance on this agreement was $227,542.

### Note 6 – Notes Payable

On May 29, 2015, 2014 Health Realty, LLC secured financing through a note payable with City Bank. The initial twelve month term has a maximum drawdown of $7,500,000. The note carries interest at prime plus 75 basis points with a floor of 4.75%. During the drawdown period payments are interest only. After the initial twelve month period the note converts to a nine year term loan, amortized over 20 years. This loan is collateralized by the real estate owned by 2014 Health Realty, LLC. As of December 31, 2015 the outstanding balance on this note was $7,156,673. This note was repaid in May 2016 as part of a sale leaseback transaction detailed in Note 8.

On August 5, 2016, Vest Monroe, LLC and Vest Monroe Realty, LLC entered into a construction loan agreement with City Bank, with a maximum drawdown amount of $14,860,000. The note is payable over 10 years, the first 18 months consist of interest only payments followed by 102 monthly payments based on a twenty year amortization with a balloon payment due at maturity. This note carries interest at prime plus 0.75% with a floor of 4.75%. The note is collateralized by the real estate owned by Vest Monroe Realty, LLC. As of December 31, 2016 the Company had drawn $6,169,228 on this note.

### Note 7 – Financing Costs

Financing costs in connection with the City Bank loans are amortized over 10 years using the straight line method. In accordance with ASC 835-30-45, the Company has presented the unamortized portion of these costs as a reduction to long term debt on the balance sheet. Net financing costs as of December 31, 2016 and 2015 were as follows:

| *As of December 31,* | 2016 | 2015 |
|---|---|---|
| Financing Costs | $ 347,983 | $ 148,881 |
| Less: Accumulated Amortization | (14,499) | (8,684) |
| Closing Costs, net | $ 333,484 | $ 140,197 |

## Note 8 – Capital Lease and Sale Leaseback

In January 2016, the Company closed on a $12,500,000 loan from a publicly-traded REIT, carrying interest at 11%. The loan had a one year term with an option to purchase the building during the term for $20,000,000. In May 2016, this option was exercised, and the proceeds from the sale paid off the $12,500,000 loan in addition to the remaining balance on the $7,500,000 City Bank Loan. The Company is leasing the premises from the purchaser and is treating the lease as a capital lease from a sale-leaseback transaction. The amount due under this capital lease as of December 31, 2016 is $19,674,114.

The following is a schedule of future minimum lease payments under the capital lease as of December 31, 2016:

| | |
|---|---|
| For the year ending December 31, 2017 | $ 1,763,832 |
| For the year ending December 31, 2018 | 1,960,610 |
| For the year ending December 31, 2019 | 1,999,825 |
| For the year ending December 31, 2020 | 2,039,820 |
| For the year ending December 31, 2021 | 2,080,616 |
| Thereafter | 21,746,121 |
| | 31,590,824 |
| Less amounts representing interest | (11,916,710) |
| Total | $ 19,674,114 |

The book value of assets held under this lease was as follows:

| *As of December 31,* | 2016 |
|---|---|
| Buildings and Improvements | $ 20,000,000 |
| Less Accumulated Depreciation | (777,778) |
| Net Book Value | $ 19,222,222 |

The Sale Leaseback transaction also resulted in a deferred gain on the difference between the carrying value of the assets at the time of sale and the selling price in the amount of $8,886,804. This deferred gain is amortized on a straight line basis over 15 years as a reduction to the depreciation expense associated with the property held under the capital lease. As of December 31, 2016 the remaining deferred gain was $8,541,206.

## Note 9 – Retirement Plan

The Company maintains a 401(k) retirement plan ("the Plan") for all eligible employees over 21 years of age with at least five months of service. Participants can contribute a percentage of their compensation up to a maximum deferral of 85% (subject to limits) and receive a matching employer contribution of 100% of deferrals up to 3% of compensation, and 50% of deferrals for the next 2% of compensation. Participants may also receive a discretionary employer matching contribution at the discretion of the Company's Board of Directors. The Company incurred expenses of $124,696 and $96,920 in 2016, and 2015, respectively.

### Note 10 – Contributions from Members

During 2016, the Company received contributions from members totaling $9,000,000 for 5,767,380 Series A-3 Preferred Units. In addition, the Company received contributions from members totaling $50,000,000 for 26,929,067 Series B Preferred Units. These contributions are reflected on the balance sheet of the Company net of associated legal fees in the amount of $131,182.

During 2015, the Company received contributions from members totaling $10,000,000 for 8,039,871 Series A-2 Preferred Units. In addition, the Company received a capital contribution of $500,000 for an additional 401,994 Series A-2 units.

### Note 11 – Operating Lease of Facilities

The Company leases through an unrelated third party, an administrative office located in New York. The lease was assigned from a former entity of common ownership with an initial lease term of ten years, expiring October 31, 2019. Rent expense for the years ended December 31, 2016 and 2015 was $160,651 and $183,501, respectively.

Future minimum rental payments under this lease commitment are as follows:

| | |
|---|---|
| December 31, 2017 | 199,217 |
| December 31, 2018 | 205,193 |
| December 31, 2019 | 175,248 |
| Total | $ 579,658 |

In addition, the Company was under an Option Agreement with an unrelated third party to purchase land in Marysville, Washington. Under this agreement, the Company paid the land owner $5,600 per month through June 2015. During the year ended December 31, 2015, these payments had been classified as rent in the amount of $33,600.

### Note 12 – Acquisitions

During 2015, the Company acquired property including an existing hospital building, and the land on which it is located, in Monroe, Georgia. The purchase price of the property was allocated to assets based on their estimated fair values as follows:

| | |
|---|---|
| Building | $ 1,925,000 |
| Land | 825,000 |
| Acquisition Costs | 90,087 |
| Total Purchase Price and Acquisition Costs | $ 2,840,087 |

## Note 13 – Related Party Transactions

As of December 31, 2016, 2014 Health Realty, LLC was due $7,152,339 from Chicago Behavioral Hospital (its related entity) for rent and miscellaneous operating expenses. This intercompany receivable is eliminated upon consolidation of the financial statements.

As of December 31, 2016, US HealthVest, LLC was due $159,650 from 2014 Health Realty (its related entity) for fees paid in connection with the closing of the City Bank loan. This intercompany receivable is eliminated upon consolidation of the financial statements.

As of December 31, 2016, Chicago Behavioral Hospital was due $3,556,079 from US HealthVest, LLC (its related entity) for miscellaneous operating expenses. This intercompany receivable is eliminated upon consolidation of the financial statements.

As of December 31, 2016, Chicago Behavioral Hospital was due $11,020 from Vest Monroe Realty (its related entity) for miscellaneous operating expenses. This intercompany receivable is eliminated upon consolidation of the financial statements.

As of December 31, 2016, US HealthVest, LLC was due $427,635 from Vest Monroe (its related entity) for miscellaneous operating expenses and capital spending. This intercompany receivable is eliminated upon consolidation of the financial statements.

As of December 31, 2016, US HealthVest, LLC was due $8,215,744 from Vest Monroe Realty (its related entity) for miscellaneous operating expenses and capital spending. This intercompany receivable is eliminated upon consolidation of the financial statements.

As of December 31, 2016, Vest Monroe Realty, LLC was due $1,042,815 from Vest Monroe (its related entity) for miscellaneous operating expenses and capital spending. This intercompany receivable is eliminated upon consolidation of the financial statements.

As of December 31, 2016, RV Behavioral, LLC was due $1,000 from RV Behavioral Realty (its related entity) for the funding of its bank account. This intercompany receivable is eliminated upon consolidation of the financial statements.

As of December 31, 2016, Vest Seattle, LLC was due $1,000 from Vest Seattle Realty (its related entity) for the funding of its bank account. This intercompany receivable is eliminated upon consolidation of the financial statements.

## Note 14 – Subsequent Events

Subsequent events were evaluated through February 25, 2016, the date that the financial statements were available to be issued.

In January 2017, RV Behavioral, LLC acquired the assets of Ridgeview Institute, Inc., a 148 bed hospital in Smyrna, Georgia. Ridgeview has certificate of need approval for 216 total beds.

In January 2017, construction was completed on the hospital in Monroe, Georgia, and it was opened as Ridgeview Institute – Monroe.

## Note 15 - Reclassifications

As stated in note 7, in accordance with ASC 835-30-45, the Company has presented the unamortized portion of financing costs as a reduction to long term debt on the balance sheet. As such, we have reclassified the unamortized portion of these costs in the prior year in order to conform to the current presentation. In addition, amortization expense associated with financing costs has been reclassified to interest expense on the statement of operations for the year ended December 31, 2015 in order to conform to current presentation.

TOBIN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS, PC

## Independent Auditors' Report on Supplemental Material

To the members of:
US HealthVest, LLC
New York, N.Y.

We have audited the consolidated financial statements of US HealthVest, LLC and subsidiaries as of and for the years ended December 31, 2016, and 2015, and our report thereon dated February 25, 2017, which expressed an unmodified opinion on those financial statements, appears on page 3. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included in the following section is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Tobin & Company
Certified Public Accountants, PC

Purchase, New York
February 25, 2017


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# US HealthVest, LLC

## Consolidating Balance Sheet

| As of December 31,2016 | US HealthVest LLC | V Colorado LLC | Vest Monroe, LLC | V Monroe Realty, LLC | 2014 Health LLC | 2014 Health Realty, LLC | RV Behavioral LLC | RV Behavioral Realty LLC | Vest Seattle, LLC | Vest Seattle Realty, LLC | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | | | | | |
| Current assets | | | | | | | | | | | | |
| Cash and equivalents | $ 27,779,926 | $ - | $ 702,712 | $ 2,644,317 | $ 21,532,706 | $ - | $ 11,512,288 | $ 940 | $ 8,823 | $ 940 | $ - | $ 64,182,652 |
| Accounts receivable, net | - | - | | - | 3,750,201 | - | - | - | - | - | - | 3,750,201 |
| Inventory | - | - | | - | 146,983 | - | - | - | - | - | - | 146,983 |
| Prepaid expenses | 25,337 | - | 8,134 | - | 717,601 | - | - | - | - | 48,174 | - | 799,246 |
| Due from parent/subsidiaries | 5,246,950 | - | | 1,042,815 | - | 7,152,339 | 1,000 | - | 1,000 | - | (13,444,104) | - |
| Total current assets | 33,052,213 | - | 710,846 | 3,687,132 | 26,147,491 | 7,152,339 | 11,513,288 | 940 | 9,823 | 49,114 | (13,444,104) | 68,879,082 |
| Land, Property and equipment, net | 38,941 | - | 681,894 | 15,531,621 | 20,165,595 | - | - | - | 162,474 | 17,489,303 | - | 54,069,828 |
| Other Assets | | | | | | | | | | | | |
| Investment in 2014 Health, LLC (CBH) | 26,676,709 | 89,663 | - | - | - | - | - | - | - | - | (26,766,372) | - |
| Investment in 2014 Health Realty, LLC | 6,992,688 | - | - | - | - | - | - | - | - | - | (6,992,688) | - |
| Investment in V Colorado, LLC | 89,663 | - | - | - | - | - | - | - | - | - | (89,663) | - |
| Investment in V Monroe, LLC | (325,260) | - | - | - | - | - | - | - | - | - | 325,260 | - |
| Investment in V Monroe Realty, LLC | 2,858,714 | - | - | - | - | - | - | - | - | - | (2,858,714) | - |
| Investment in RV Behavioral | 11,763,288 | - | - | - | - | - | - | - | - | - | (11,763,288) | - |
| Investment in RV Behavioral Realty | (60) | - | - | - | - | - | - | - | - | - | 60 | - |
| Investment in Vest Seattle | 172,297 | - | - | - | - | - | - | - | - | - | (172,297) | - |
| Investment in Vest Seattle Realty | 16,881,165 | - | - | - | - | - | - | - | - | - | (16,881,165) | - |
| Investment in future facilities | 649,900 | - | - | - | - | - | 250,000 | - | - | - | - | 899,900 |
| Other receivable and other assets | - | - | - | 23,000 | 936 | - | - | - | - | - | - | 23,936 |
| Goodwill | - | - | - | - | 15,016,697 | - | - | - | - | - | - | 15,016,697 |
| Total Other Assets | 65,759,104 | 89,663 | - | 23,000 | 15,017,633 | - | 250,000 | - | - | - | (65,198,867) | 15,940,533 |
| Total Assets | $ 98,850,258 | $ 89,663 | $ 1,392,740 | $ 19,241,753 | $ 61,330,719 | $ 7,152,339 | $ 11,763,288 | $ 940 | $ 172,297 | $ 17,538,417 | $ (78,642,971) | $ 138,889,443 |
| LIABILITIES AND MEMBERS' EQUITY | | | | | | | | | | | | |
| Liabilities | | | | | | | | | | | | |
| Accounts payable | $ 5,645,544 | $ - | $ 217,105 | $ 1,186,622 | $ 106,105 | $ - | $ - | $ - | $ - | $ - | $ - | $ 7,155,376 |
| Accrued expenses | 289,088 | - | 19,425 | 25,900 | 2,430,141 | - | - | - | - | 12,918 | - | 2,777,472 |
| Financed Insurance | - | - | - | - | 227,542 | - | - | - | - | - | - | 227,542 |
| Retainage | - | - | - | 1,119,028 | - | - | - | - | - | 643,334 | - | 1,762,362 |
| Due to parent/subsidiaries | - | - | 1,481,470 | 8,215,745 | 3,585,239 | 159,650 | - | 1,000 | - | 1,000 | (13,444,104) | - |
| Total current liabilities | 5,934,632 | - | 1,718,000 | 10,547,295 | 6,349,027 | 159,650 | - | 1,000 | - | 657,252 | (13,444,104) | 11,922,752 |
| Capital Lease | - | - | - | - | 19,674,114 | - | - | - | - | - | - | 19,674,114 |
| Unearned Profit on Sale Leaseback | - | - | - | - | 8,541,206 | - | - | - | - | - | - | 8,541,206 |
| Note Payable | - | - | - | 6,169,228 | - | - | - | - | - | - | - | 6,169,228 |
| Financing Costs, net | - | - | - | (333,484) | - | - | - | - | - | - | - | (333,484) |
| Total Liabilities | 5,934,632 | - | 1,718,000 | 16,383,039 | 34,564,347 | 159,650 | - | 1,000 | - | 657,252 | (13,444,104) | 45,973,816 |
| Members' Equity | 92,915,626 | 89,663 | (325,260) | 2,858,714 | 26,766,372 | 6,992,689 | 11,763,288 | (60) | 172,297 | 16,881,165 | (65,198,867) | 92,915,627 |
| Total Liabilities and Members' Equity | $ 98,850,258 | $ 89,663 | $ 1,392,740 | $ 19,241,753 | $ 61,330,719 | $ 7,152,339 | $ 11,763,288 | $ 940 | $ 172,297 | $ 17,538,417 | $ (78,642,971) | $ 138,889,443 |

*See Independent Auditors' Report on Supplementary Information*

# US HealthVest, LLC

## Consolidating Statement of Operations

| *For the year ended December 31, 2016* | US HealthVest LLC | V Colorado LLC | V Monroe LLC | V Monroe Realty, LLC | 2014 Health LLC | 2014 Health Realty, LLC | RV Behavioral LLC | RV Behavioral Realty LLC | Vest Seattle, LLC | Vest Seattle Realty, LLC | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | | | | | | |
| Net patient service revenue | $ - | $ - | | $ - | $ 31,598,936 | $ - | $ - | $ - | $ - | $ - | $ - | $ 31,598,936 |
| Other revenue | - | - | | - | 1,697,612 | 460,417 | - | - | - | - | (460,417) | 1,697,612 |
| Net Revenues | - | - | - | - | 33,296,548 | 460,417 | - | - | - | - | (460,417) | 33,296,548 |
| | | | | | | | | | | | | |
| Operating expenses | | | | | | | | | | | | |
| Salaries and benefits | 4,026,175 | - | 245,049 | - | 14,597,453 | - | - | - | - | - | - | 18,868,677 |
| Medical Professional fees | - | - | 3,500 | - | 1,963,797 | - | - | - | - | - | - | 1,967,297 |
| Other Professional Fees | 2,209,780 | - | 43,785 | 5,671 | 161,224 | 250 | - | - | - | 712 | - | 2,421,422 |
| Supplies | 28,341 | - | 1,213 | 429 | 1,395,592 | 11,765 | - | - | - | - | - | 1,437,340 |
| Licenses, permits and fees | 128,826 | - | 4,550 | 1,794 | 1,292,006 | - | - | - | - | 2,820 | - | 1,429,996 |
| Contracted Services | - | - | - | - | 1,210,714 | 775 | - | - | - | - | - | 1,211,489 |
| Bad debt expense | - | - | - | - | 813,681 | - | - | - | - | - | - | 813,681 |
| Property and business taxes | 11,211 | - | - | 32,925 | 664,107 | 3,250 | - | - | - | 9,592 | - | 721,085 |
| Travel and entertainment | 618,435 | - | 1,928 | - | 88,472 | - | - | - | - | 1,979 | - | 710,814 |
| Insurance | 59,645 | - | 2,663 | 26,366 | 310,752 | 40,957 | - | - | - | 33,845 | - | 474,228 |
| Telephone and Utilities | 35,229 | - | 1,271 | 21,404 | 228,326 | 65,525 | - | - | - | - | - | 351,755 |
| Repairs and maintenance | 6,376 | - | 400 | 16,031 | 212,183 | 90,977 | - | - | - | - | - | 325,967 |
| Contracted labor | - | - | - | - | 204,598 | - | - | - | - | - | - | 204,598 |
| Rent | 163,069 | - | 711 | 1,800 | 485,277 | - | - | - | - | - | (460,417) | 190,440 |
| Recruiting | 5,077 | - | 4,216 | - | 125,990 | - | - | - | 1,034 | - | - | 136,317 |
| Other operating expenses | 30,468 | - | 1,060 | 2,130 | 60,375 | - | 234 | 60 | 178 | 60 | - | 94,565 |
| Computer and internet | 77,498 | - | 9,829 | 2,277 | - | - | - | - | - | 1,650 | - | 91,254 |
| Security | - | - | - | 67,285 | - | - | - | - | - | - | | 67,285 |
| Advertising and marketing | 55 | - | 1,173 | - | 42,542 | - | - | - | - | 2,376 | - | 46,146 |
| Dues and Subscriptions | 13,681 | - | 3,912 | 315 | - | - | - | - | 280 | 330 | - | 18,518 |
| Total operating expenses | 7,413,866 | - | 325,260 | 178,427 | 23,857,089 | 213,499 | 234 | 60 | 1,492 | 53,364 | (460,417) | 31,582,874 |
| | | | | | | | | | | | | |
| Operating Profit (Loss) | (7,413,866) | - | (325,260) | (178,427) | 9,439,459 | 246,918 | (234) | (60) | (1,492) | (53,364) | - | 1,713,674 |
| | | | | | | | | | | | | |
| Other income (expenses): | | | | | | | | | | | | |
| Equity in net income of subsidiaries | 6,598,824 | 73,149 | - | - | - | - | - | - | - | - | (6,671,973) | - |
| Depreciation and amortization | (14,780) | - | - | - | (895,115) | (75,540) | - | - | - | - | - | (985,435) |
| Interest expense from financing costs | - | - | - | (14,499) | - | (140,097) | - | - | - | - | - | (154,596) |
| Interest income, net of expense | 36,546 | - | - | (58,520) | (1,229,411) | (119,055) | 3,522 | - | - | - | - | (1,366,918) |
| Total other expenses | 6,620,590 | 73,149 | - | (73,019) | (2,124,526) | (334,692) | 3,522 | - | - | - | (6,671,973) | (2,506,949) |
| | | | | | | | | | | | | |
| Net Income (Loss) | $ (793,276) | $ 73,149 | $ (325,260) | $ (251,446) | $ 7,314,933 | $ (87,774) | $ 3,288 | $ (60) | $ (1,492) | $ (53,364) | $ (6,671,973) | $ (793,275) |

*See Independent Auditors' Report on Supplementary Information*

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## Consolidating Statement of Members' Equity

| *For the year ended December 31, 2016* | US HealthVest LLC | V Colorado LLC | V Monroe LLC | V Monroe Realty, LLC | 2014 Health LLC | 2014 Health Realty, LLC | RV Behavioral LLC | RV Behavioral Realty LLC | Vest Seattle, LLC | Vest Seattle Realty, LLC | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Beginning Balance, January 1, 2016 | $ 34,840,084 | $ 16,514 | $ - | $ 3,110,160 | $ 19,451,439 | $ 7,080,463 | $ - | $ - | $ - | $ - | $ (29,658,576) | $ 34,840,084 |
| Contributions from Members | 58,868,818 | - | - | - | - | - | 11,760,000 | - | 173,789 | 16,934,529 | (28,868,318) | 58,868,818 |
| Net Income (Loss) | (793,276) | 73,149 | (325,260) | (251,446) | 7,314,933 | (87,774) | 3,288 | (60) | (1,492) | (53,364) | (6,671,973) | (793,275) |
| Balance, December 31, 2016 | $ 92,915,626 | $ 89,663 | $ (325,260) | $ 2,858,714 | $ 26,766,372 | $ 6,992,689 | $ 11,763,288 | $ (60) | $ 172,297 | $ 16,881,165 | $ (65,198,867) | $ 92,915,627 |

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## Consolidating Statement of Cash Flows

| *For the year ended December 31, 2016* | US HealthVest LLC | V Colorado LLC | V Monroe LLC | V Monroe Realty, LLC | 2014 Health LLC | 2014 Health Realty, LLC | RV Behavioral LLC | RV Behavioral Realty LLC | Vest Seattle, LLC | Vest Seattle Realty, LLC | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash Flows From Operating Activities | | | | | | | | | | | | |
| Net Income (Loss) | $ (793,276) | $ 73,149 | $ (325,260) | $ (251,446) | $ 7,314,933 | $ (87,774) | $ 3,288 | $ (60) | $ (1,492) | $ (53,364) | $ (6,671,973) | $ (793,275) |
| Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities: | | | | | | | | | | | | |
| Depreciation and amortization | 14,780 | - | - | - | 895,115 | 75,540 | - | - | - | - | - | 985,435 |
| Interest in connection with financing costs | - | - | - | 14,499 | - | 140,097 | - | - | - | - | - | 154,596 |
| Bad debt expense | - | - | - | - | 813,681 | - | - | - | - | - | - | 813,681 |
| Changes in Operating Assets and Liabilities: | | | | | | | | | | | | - |
| Increase in prepaid expenses | 66,628 | - | (8,134) | - | (259,546) | - | - | - | - | (48,174) | - | (249,226) |
| Increase in other receivable and other assets | (175,838) | - | - | (23,000) | 13,878 | - | (250,000) | - | - | - | - | (434,960) |
| Decrease in accounts receivable | - | - | - | - | (728,951) | - | - | - | - | - | - | (728,951) |
| Increase in inventory | - | - | - | - | (10,535) | - | - | - | - | - | - | (10,535) |
| Increase in payables and accrued expenses | 4,778,656 | - | 236,530 | 1,212,522 | 112,482 | (397,405) | - | - | - | 12,918 | - | 5,955,703 |
| Net Cash Flows Used in Operating Activities | 3,890,950 | 73,149 | (96,864) | 952,575 | 8,151,057 | (269,542) | (246,712) | (60) | (1,492) | (88,620) | (6,671,973) | 5,692,468 |
| Cash Flows From Investing Activities | | | | | | | | | | | | |
| Capital expenditures | (6,989) | - | (681,894) | (11,816,118) | (21,060,710) | 11,309,893 | - | - | (162,474) | (17,489,303) | - | (39,907,595) |
| Increase in Deferred Gain on Sale Leaseback | - | - | - | - | 8,541,206 | - | - | - | - | - | - | 8,541,206 |
| Investment in Subsidiaries | (35,467,142) | (73,149) | - | - | - | - | - | - | - | - | 35,540,291 | - |
| Net Cash Flows Used in Investing Activities | (35,474,131) | (73,149) | (681,894) | (11,816,118) | (12,519,504) | 11,309,893 | - | - | (162,474) | (17,489,303) | 35,540,291 | (31,366,389) |
| Cash Flows From Financing Activities | | | | | | | | | | | | |
| Contributed Capital | 58,868,818 | - | - | - | - | - | 11,760,000 | - | 173,789 | 16,934,529 | (28,868,318) | 58,868,818 |
| Advances from notes payable | - | - | - | 6,169,228 | - | - | - | - | - | - | - | 6,169,228 |
| Repayment of notes payable | - | - | - | - | - | (7,156,673) | | | | | - | (7,156,673) |
| Proceeds from Capital Lease | - | | | | 20,000,000 | | | | | | - | 20,000,000 |
| Repayment of Capital Lease | - | | | | (325,886) | | | | | | - | (325,886) |
| Increase in Retainage | - | - | - | 1,119,028 | - | - | - | - | - | 643,334 | - | 1,762,362 |
| Due to/From Subsidiaries | (2,722,230) | - | 1,481,470 | 6,158,452 | (385,332) | (4,532,360) | (1,000) | 1,000 | (1,000) | 1,000 | - | - |
| Financing Costs incurred | - | - | - | (347,983) | - | - | - | - | - | - | - | (347,983) |
| Increase in financed insurance | - | - | - | - | 62,200 | - | - | - | - | - | - | 62,200 |
| Net Cash Flows Provided by Financing Activities | 56,146,588 | - | 1,481,470 | 13,098,725 | 19,350,982 | (11,689,033) | 11,759,000 | 1,000 | 172,789 | 17,578,863 | (28,868,318) | 79,032,066 |
| Net Increase (Decrease) In Cash | 24,563,407 | - | 702,712 | 2,235,182 | 14,982,535 | (648,682) | 11,512,288 | 940 | 8,823 | 940 | - | 53,358,145 |
| Cash at Beginning of Period | 3,216,519 | - | - | 409,135 | 6,550,171 | 648,682 | - | - | - | - | - | 10,824,507 |
| Cash at End of Period | $ 27,779,926 | $ - | $ 702,712 | $ 2,644,317 | $ 21,532,706 | $ - | $ 11,512,288 | $ 940 | $ 8,823 | $ 940 | $ - | $ 64,182,652 |

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